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* Executive Committee Member

April 7, 1999

Office of the Fiscal Assistant Secretary
U.S. Department of Treasury, Room 2112
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Sir or Madam:

I am writing on behalf of Public Counsel to urge the Department of Treasury to *prohibit* check cashers and other "non-depository payment service providers" from providing recipients access to electronic federal benefits, as part of Electronic Funds Transfer '99 ("EFT'99"). Check cashers prey upon low-income consumers and deny their customers the basic consumer protections required of most other financial institutions. We do not believe they should be given an additional opportunity to harm the poor by being included within EFT'99.

By way of background, Public Counsel is the public interest law office of the Los Angeles County and Beverly Hills Bar Associations. Working primarily through *pro bono* attorneys in the private bar, Public Counsel provides free legal assistance to poor people and the groups that serve them in a variety of different areas including consumer fraud, children's rights, immigration, disaster relief, child care law, affordable housing and homelessness. Since its inception in 1977, Public Counsel has assisted thousands of poor, less-sophisticated persons who have suffered from consumer fraud and homelessness.

The Department of Treasury began EFT'99 with the stated goal of bringing the unbanked into the financial mainstream. Allowing check cashers to be the access point for federal benefits, however, does exactly the opposite.

The majority of check cashers target their services to low-income people who are desperate for their services either because they cannot afford or qualify for the services offered by mainstream financial institutions or because those mainstream institutions do not maintain the kind of physical presence in low income communities as do check cashers. Because low-income public benefits recipients cannot afford to maintain traditional bank accounts or obtain traditional forms of credit, they are often forced to use similar services offered by check cashers at

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April 7, 1999
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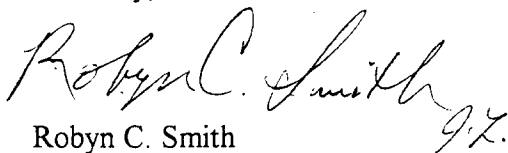
outrageous prices. For example, in California a two week loan from a check casher can cost a borrower 456% annual interest.

In Los Angeles, state General Assistance benefits are currently distributed electronically by check cashers. These check cashers often encourage public benefits recipients to use their other costly services. In addition, less-sophisticated recipients often will not put the time and effort into finding a bank that can provide more affordable financial services, especially when the recipient is already obtaining public benefits from the convenient check casher just down the block. Allowing check cashers to distribute electronic benefits will only encourage overspending, non-budgeting, living check-to-check, and a never ending cycle of deepening debt. It will not facilitate the use of mainstream banking services by low-income persons.

Finally, check cashers may ignore the few consumer protections followed by mainstream financial institution. For example, if a public benefits recipient obtains a loan from a check casher, the check casher may withhold federal funds as payment for the debt. Even though federal funds are normally non-garnishable for the payment of debts, most recipients are not aware of this protection. Even if they are aware of this protection, recipients are usually not sophisticated enough to force the check casher to return the benefits by filing a complaint in state court. Most check cashers are not meaningfully regulated by any governmental agency and are therefore free to routinely violate consumer protection requirements without any adverse consequences.

By allowing check cashers to provide access to federal funds, the Department of Treasury will not only condone but will stimulate the abusive practices of check cashers. While the customer will go to the check casher to receive federal benefits, she may also become a potential customer for numerous other abusive transactions. It is time the Department Treasury made EFT'99 a program that truly protects consumers and ensures that low-income recipients are not relegated to a position outside the financial mainstream. We urge you to prohibit arrangements wherein recipients of electronic federal payments gain access to benefits through non-depository payment service providers.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robyn C. Smith". To the right of the signature, the initials "R.C." are written in a similar cursive style.

Robyn C. Smith
Directing Attorney
Consumer Law Project

cc: Arthi Varma, California Reinvestment Committee
Earl Lui, Consumers Union

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